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Message Text

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13
ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AGR-05 /025 W
---------- 070614
R 202113Z AUG 76
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 823

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PASS AGRICULTURE ASST SEC BELL/FAS NOVOTNY

E.O. 11652: N/A
TAGS: EARG, CA
SUBJ: CANADIAN WHEAT EXPORT POSTURE

REF: (A) FASTO 32; (B) TOFAS 111

1. CROP ESTIMATES BY VARIOUS SOURCES CONTINUE TO REFLECT A BUMPER PRAIRIE WHEAT CROP. AS ONE ANALYST SAID, "I CAN UNDERSTAND THE TENDENCY TO QUESTION AN OVER ALL YIELD OF 30 BUSHELS/ACRE BUT THIS IS ONE OF THOSE YEARS THAT COMES ALONG EVERY 8 OR 10 YEARS". AS BEST AGATT CAN DETERMINE, ALL ANALYSTS TEND TO USE THE OFFICIAL ACREAGE ESTIMATE IN CALCULATING THE TOTAL CROP. IT MAY NOT BE ACCURATE BUT NO INDEPENDENT SOURCE IS CAPABLE OF MAKING ITS OWN ACREAGE ESTIMATE.

2. REGARDING THE CWB'S AGGRESSIVENESS CANADIAN CONVENTIONAL WISDOM WOULD NOT PERMIT ANY OTHER DESCRIPTION. IN TERMS OF HOW AGGRESSIVE, WE HAVE RECEIVED TWO CONFLICTING REPORTS FROM INFORMED SOURCES:

A. ONE SOURCE VIEWS THE SITUATION AS FOLLOWS:

CURRENT SITUATION: CWB COMMISSIONDERS ON VACATION AT PRESENT. TRADITION WOULD SUGGEST SALES POSTURE FOR '76 CROP WILL NOT BE IN EVIDENCE UNTIL CROP IS PRETTY WELL IN HAND. THIS COULD MEAN THAT IF WE ARE TO SEE AGGRESSIVENESS IT WILL NOT BE UNTIL
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OCTOBER. EVIDENCE TO DATE SUGGESTS CWB HAS NOT RPT NOT BEEN

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AGGRESSIVE SELLER. NOT WILLING TO COMPETE WITH U.S. PROTEIN SPRINGS. RECENT SALES OF 250-300,000 NO. 2 CWR 12.5 PCT. TO INTERNATIONAL TRADERS MADE AT PRICES COMPETITIVE WITH U.S. HARD WINTERS. THIS WHEAT REPORTEDLY HAS NOT BEEN RESOLD AND WILL HAVE INFLUENCE ON MARKET UNTIL IT IS SOLD. ST. LAWRENCE ELE-VATORS ARE REPORTEDLY PLUGGED WITH GRAIN. SOME OBSERVERS BELIEVE CWB STILL APPEARS TO BE WAITING FOR NEW SALES TO PRCE AND USSR.

PROBLEM TO BE FACED: IT WOULD APPEAR THAT THE U.S. AND CANADA WILL BE FACED WITH A BUYERS MARKET IN 1967/77 AND THE FOLLOWING FACTORS WILL INFLUENCE THE CWB'S SUCCESS IN EXPORT SALES:

(1) CWB CONTINUES TO RETAIN OPTIONS TO DELIVER LOWER GRADES IN CONTRACTS FOR NO. 1 CWR 13.5 PROTEIN. WHILE BUYERS MAY HAVE TOLERATED THESE OPTIONS IN THE PAST FOUR YEARS, THEY DON'T LIKE THIS FEATURE. THIS COULD ATTRACT SOME BUSINESS TO THE U.S. THIS CWB PRACTICE IS DICTATED TO A LARGE EXTENT BY PHYSICAL CHARACTERISTICS OF THE MARKETING SYSTEM.

(2) SOME TRADITIONAL IMPORTERS OF HIGH PROTEIN SPRINGS HAVE SHOWN A TENDENCY TO SEEK LOWER PROTEINS. THE 1976 CANADIAN CROP COULD RUN 80 PCT. CWR NO. 1 AND 2 WHICH COULD AGGRAVATE CWB SALES POSTURE. EUROPEAN CROP RUNNING HIGHER IN PROTEIN SUGGESTS LESS DEMAND FOR STRONG WHEATS IN THAT MARKET.

(3) COMPETITIVE PRICING: WHILE SOURSE DOES NOT UNDERESTIMATE CWB WHEN IT COMES TO PRICING BUT SEES SOME ELEMENTS THAT ARE NEW ON THE SCENE. PRIOR TO THE 1972/73 MARKETING YEAR, EXPORT PRICE DIFFERENTIALS BETWEEN CANADIAN SPRINGS AND U.S. HRS/PROTEIN WINTERS WERE ESTABLISHED AS THE RESULT OF CWB PRICING AND CCC EXPORT SUBSIDY ACTIONS. AS A GENERAL RULE, CWB TOOK THE LEAD IN PRICING AND CCC RESPONDED. HOWEVER, IN TODAY'S MARKET IT WOULD APPEAR THAT THE ROLES WILL BT REVERSED WITH CWB REACTING TO U.S. OPEN MARKET EXPORT PRICES. PRIOR TO 1972 THESE DIFFERENTIALS WERE NOT STATIC BUT DID FALL WITHIN A FAIRLY NARROW RANGE. WHETHER THE INTERNATIONAL MARKET WILL AGAIN REFLECT THESE DIFFERENTIALS OR WHETHER NEW DIFFERENTIALS WILL EMERGE IS UNKNOWN. ALSO UNKNOWN IS THE EXTENT TO WHICH THE CWB, FACED WITH LIMITED OFFICIAL USE

MARKETING A BUMPER CROP OF HIGH QUALITY WHEAT, WILL CLING TO ITS HISTORIC VIEWS AS TO THE KIND OF PREMIUM THAT A CADILLAC WHEAT SHOULD COMMAND.

B. THE OTHER VIEW STATES THAT CWB IS VERY AGGRESSIVE AT THE MOMENT. CANADIAN WHEAT IS AVAILABLE CHEAPER THAN U.S. WHEAT BECAUSE U.S. FARMERS ARE HOLDING WHEAT OFF THE MARKET. THE CWB CAN FORESEE A LARGE CARRY-OVER IN NORTH AMERICA A YEAR FROM

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NOW AND THEY WANT TO SEE THIS LARGELY IN U.S. HANDS.
CWB HAS BEEN MAKING SALES OF HIGH PROTEIN SPRING TO INTERNATIONAL TRADERS WHO IN TURN ARE HEDGING IN U.S. FUTURES MARKET. WHILE SALES ARE NOT HUGH, THE QUANTITIES ARE SIGNIFICANT. EXPORTERS ARE BEING ENCOURAGED TO BID AND THE BOARD APPEARS WILLING TO ACCEPT PRICES AT ANYWHERE BETWEEN 5 TO 20 DENTS BELOW BOARD PRICE, WITH 15 CENTS AS AVERAGE. CWB IS SELLING CWR 1 AND 1 13.5 PROTEIN QUARANTEED WITH NO OPTIONS. DOUBTS THAT CWB EXPECTING ANY SALES TO USSR AND PRC IS A COMPLETE UNKNOWN.

3. COMMENTS:

OBVIOUSLY CWB WILL ENDEAVOR TO MAXIMIZE EXPORTS AND MINIMIZE CARRY-OVER. HOWEVER, WE DO NOT BELIEVE CWB WILL CONDUCT FIRE SALES TO ACHIEVE THIS END. GIVEN CURRENT CWB ASKING PRICES AND BID ACCEPTANCES AS STATED IN 2B, WE CONCLUDE THAT SALES ARE BEING MADE AND WILL CONTINUE. HOWEVER, MUCH OF THIS WHEAT IS STILL SEEKING A FINALS MARKET.

IF PRICES DECLINE, WE BELIEVE CWB WILL BE LESS AGGRESSIVE WHEN EXPORT PRICES REFLECT A POOLED FARM GATE RETURN OF $3.00:BU. WHICH IS GUARANTEED PRICE. WHILE IT IS NOT POSSIBLE FOR US TO EXPRESS A POOLED FARM GATE OF $3.00 IN TERMS OF PRICES FOR SPECIFIC GRADES F.O.B. THUNDER BAY, OUR GUESS IS THAT CWB DOES NOT HAVE MUCH MORE FLEXIBILITY. THE REASON WE BELIEVE THAT EXPORT PRICES WILL NOT BE PERMITTED TO FALL BELOW THAT WHICH EQUATES TO THE GUARANTEED PRICE, IS THAT FEDERAL FISCAL AUTHORITIES WILL STRONGLY OPPOSE A SALES POLICY WHICH WILL CREATE ANY ADDITIONAL OUTLAY OF FEDERAL FUNDS, NOTWITHSTANDING THE FEATURES OF THE RECENTLY ENACTED WESTERN GRAIN STABILIZATION ACT.
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